

Message Text

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ACTION NEA-16

INFO OCT-01 EUR-25 EA-11 ISO-00 AF-10 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04

PRS-01 USIA-15 IO-14 DRC-01 /225 W

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R 130825Z AMY 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 1565

INFO AMEMBASSY KUWAIT

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

USINT ALGIERS

C O N F I D E N T I A L ABU DHABI 0578 SECTION 1 OF 2

BEIRUT PASS BAGHDAD; KUWAIT PASS DOHA AND MUSCAT; PARIS FOR OECD

EO 11652: GDS

TAGS: ENRG, TC

SUBJ: PETROLEUM: ABU DHABI/DUBAI PRODUCTION LEVEL FOR SECOND
QUARTER AND ESTIMATES FOR YEAR.

REF: STATE 78763

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SUMMARY: OVER PAST FOUR MONTHS, SERIOUS DEBATE HAS TAKEN
PLACE WITHIN ABU DHABI GOVT (ADG) CONCERNING APPROPRIATE
LEVEL OF OIL PRODUCTION AD SHOULD MAINTAIN FOR IMMEDIATE
FUTURE. CONSERVATIONISTS IN ADG HAVE ARGUED FOR HOLDING

PRODUCTION AT 1.5 MILL BPD LEVEL FOR REST OF YEAR, WHILE MINPET OTAIBA HAS BEEN PUSHING FOR A FULL CAPACITY PRODUCTION, I.E. 1.85 MILL BPD. ON APRIL 22, SHAIKH ZAYID RESOLVED DEBATE BY COMPROMISE FORMULA ESTABLISHING AD'S CRUDE PRODUCTION LEVEL AT 1.635 MILL BPD FOR REMAINDER 1974. OPERATING COMPANIES ADVISED OFFICIALLY THAT THIS LEVEL WILL BE DIVIDED PROPORTIONALLY BETWEEN THEM. DECISION PARTICULARLY DISAPPOINTING TO ADPC WHICH WILL BE UNABLE UTILIZE FULL CAPACITY PROVIDED BY NEW ASAB FIELD. COMPANIES ALSO ADVISED FOR FIRST TIME BY NATIONAL OIL CO. (ADNOC) THAT GOVT WOULD MAKE INDEPENDENT RESERVOIR STUDY TO DETERMINE PROPER OFFTAKE RATE IN FUTURE FROM EACH PRODUCING FIELD. IN MOVING TOWARD IMPOSITION OF PRODUCTION CONTROLS, ADG WILL LIKELY TAKE MORE GRADUAL APPROACH THAN LIBYA OR KUWAIT. WE UNDERSTAND DECISION TO LIMIT PRODUCTION IN 1974 BASED MAINLY ON UAE'S INABILITY TO ABSORB AND UTILIZE GREATER INCOME. EMBASSY INFORMED THAT DUBAI PRODUCTION PROGRAMMED AT 245,000 BPD FOR SECOND QUARTER AND AT 261,000 BPD FOR FULL YEAR. TOTAL UAE OIL INCOME IN 1974 ON BASIS ABOVE PRODUCTION LEVELS CALCULATED AT DOLS 5 BILLION, OR ROUGHLY FIVE FOLD INCREASE OVER THAT OF 1973.

1. SINCE FIRST OF YEAR, AND WELL BEFORE EMBARGO ON SHIPMENTS TO US LIFTED, SERIOUS DEBATE HAS BEEN UNDERWAY WITH UAE/ABU DHABI GOVTS CONCERNING APPROPRIATE LEVEL OF OIL PRODUCTION ABU DHABI SHOULD MAINTAIN FOR IMMEDIATE FUTURE. THIS DEBATE LARGELY UNCONNECTED WITH QUESTION OF ARAB USE OF OIL AS A WEAPON; IT HAS INVOLVED MORE FUNDAMENTAL ECONOMIC QUESTIONS RELATED TO ABU DHABI'S RESERVES, CRUDE PRICE LEVEL, AMOUNT OF INCOME UAE/AD WILL REQUIRE AND CAN ABSORB FOR DEVELOPMENT AND FOR MEETING ITS OUTSIDE AID COMMITMENTS, AND ATTRACTIVENESS OF INVESTMENT OPPORTUNITIES FOR SURPLUS FUNDS.

2. IN COURSE OF DEBATE, CONSIDERABLE SENTIMENT DEVELOPED WITHIN COUNCILS OF GOVT IN SUPPORT OF ARGUEMENT THAT ABU DHABI SHOULD LIMIT ITS PRODUCTION OF PETROLEUM TO LEVEL SATISFYING ITS BASIC NEEDS. LEVEL RECOMMENDED WAS 1.5 MILL BPD, WHICH REPRESENTS ABOUT 80 PERCENT OF PRESENT INSTALLED CAPACITY. PROPONENTS OF THIS ARGUMENT
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LED INTER ALIA BY EXPATRIATE ADVISORS DR. ADNAN PACHACHI AND DR. HASSAN ABBAS ZAKI. IN NUMEROUS MEETINGS OF ADNOC AND ABU DHABI EXECUTIVE COUNCIL, THESE TWO HAVE STRONGLY ARGUED THAT OIL IN GROUND WORTH MORE TO ABU DHABI IN FUTURE, AND AT ITS PRESENT STAGE OF DEVELOPMENT, COUNTRY COULD NOT USEFULLY ABSORB INCOME FROM PRODUCTION RATE GREATER THAN 1.5 MILL BPD. EMB HAS LEARNED FROM KNOWLEDGEABLE OIL SOURCES THAT LIMITATION OF PRODUCTION ARGUMENT WON ACCEPTANCE OF PRACTICALLY ALL KEY DECISION-MAKERS IN UAE/AD GOVTS WITH EXCEPTION OF FEDERAL MINPET OTAIBA. SEVERAL WEEKS AGO, OTAIBA INFORMED CHARGE THAT HE PRACTICALLY ISOLATED IN ARGUING FOR RESUMPTION

FULL PRODUCTION FROM AD FIELDS AFTER EMBARGO LIFTED. ALTHOUGH NOT ADMITTING IT, OTAIBA SEEMS TO HAVE BEEN INFLUENCED BY THINKING OF

YAMANI TO EFFECT THAT MAJOR GULF PRODUCERS HAVE CERTAIN OBLIGATION TO MAINTAIN THEIR PRODUCTION AT LEVEL TO SATISFY DEMAND OF BOTH INDUSTRIALIZED COUNTRIES AND LDCS. OTAIBA FRANKLY DISCOURAGED AT TREND OF POLICY IN AD AND ASKED CHARGE IF OPPORTUNITY PRESENTED ITSELF, WOULD USG BE WILLING TO WEIGH-IN WITH ZAYID TO SUPPORT POSITION THAT IT IN AD'S OVERALL ECON AND POL INTERESTS TO PRODUCE AT FULL CAPACITY.

3. SINCE EMBARGO ON US LIFTED, BOTH ADPC AND ADMA HAVE BEEN PUMPING OUT ALL THE OIL THEY CAN; DURING FIRST 22 DAYS OF APRIL ADPC PRODUCTION AVERAGED SLIGHBOY UNDER 1.25 MILL BPD AND ADMA HAS BEEN PRODUCING AT NEAR MAXIMUM RATE OF 550,000 BPD. ALTHOUGH OTAIBA NEVER REDUCED HIS INSTRUCTIONS TO WRITING, IT CLEARLY UNDERSTOOD BY COMPANIES THAT HE HAD ACQUIESED IN THEIR POLICY OF FULL PRODUCTION. DURING MOST OF APRIL HOWEVER, OTAIBA WAS OUT OF COUNTRY AND POLICY DISCUSSIONS ON SUBJECT OF PRODUCTION LEVEL, RESULTED IN ABU DHABI EXEC COUNCIL RECOMMENDING TO SHAIKH ZAYID LIMITATION OF PRODUCTION FOR REST OF 1974 AT LEVEL 1.5 MILL BPD.

4. ZAYID, WHO APPARENTLY TOOK INTO ACCOUNT OTAIBA'S OBJECTION AS WELL AS POSITION EXPRESSED FORCEFULLY BY OPERATING COMPANIES, ESPECIALLY APDC, THAT ALL EXISTING FACILITEIS SHOULD BE UTILIZED TO FULL CAPACITY, DECIDED ON COMPROMISE FORMULA TO RESOLVE ISSUE. ON APRIL 22 DIRECTOR OF ADNOC SHAIKH TAHNOUN, SUMMONED ACTING GEN MGRS OF ADPC AND ADMA TO INFORM THEM THAT PRESIDENT HAD DECIDED AFTER WEIGHING ALL CONSIDERATIONS, TO ESTABLISH ABU DHABI'S LEVEL OF PRODUCTION FOR REMAINDER 1974 RPT REMAINDER 1974 AT LEVEL CONFIDENTIAL

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1.635 MILL BPD. THIS IS APPROX 200-250,000 BPD LESS THAN COMBINED PRODUCTION CAPACITY OF ADPC AND ADMA. TAHNOUN FURTHER INFORMED COMPANY REPS THAT GOVT HAS DECREED THAT 1.635 FIGURE WILL BE DIVIDED PROPORTIONALLY. GOVT UNILATERALLY DECIDED ADPC SHOULD PRODUCE AT 1.1 MILL BPD LEVEL AND ADMA AT RATE 535,000 BPD FOR REMAINDER 1974.

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